

Message Text

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ACTION EA-12

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C O N F I D E N T I A L PEKING 2135

E.O. 11652: GDS
TAGS: EMIN, ETRD, CH, US
SUBJ: HIGH-LEVEL ORE BENEFICIATION GROUP TO VISIT U.S.

1. SUMMARY: VISIT OF A HIGH-LEVEL IRON ORE BENEFICIATION STUDY MISSION TO U.S. NEXT MONTH HIGHLIGHTS CHINA'S REAL INTEREST IN U.S. TECHNOLOGY IN THIS FIELD. IN THE LAST TWO MONTHS TECHIMPORT HAS INVITED AT LEAST FOUR U.S. FIRMS -- ALLIS CHALMERS, BETHLEHEM STEEL, U.S. STEEL, AND DRAVO -- TO VISIT IRON MINES. AT LEAST THREE -- ALLIS CHALMERS, BETHLEHEM STEEL AND U.S. STEEL -- HAVE BEEN GIVEN ORE SAMPLES AND HAVE BEEN ASKED TO TEST THESE SAMPLES AND MAKE PROPOSALS ON SELLING BENEFICIATION TECHNOLOGY. IT APPEARS THAT TECHIMPORT HAS DECIDED TO OBTAIN THIS TECHNOLOGY FROM THE U.S., WHICH COULD MEAN CONTRACTS WORTH HUNDREDS OF MILLIONS. END SUMMARY.

2. DEPT MAY BE AWARE, BUT WE HAVE JUST LEARNED, THAT A HIGH-LEVEL 17 MEMBER PRC ORE BENEFICIATION STUDY GROUP LED BY A VICE MINISTER OF METALLURGY, HSU CHIH, WILL BE VISITING THE U.S. BEGINNING AUGUST 12, PROBABLY AT THE INVITATION OF NCUSCT. THE GROUP WILL SPEND SEVERAL DAYS IN CANADA BEFORE THE U.S. ACCORDING TO THE CANADIANS, THE DELEGATION IS INTERESTED IN IRON ORE MINING AND BENEFICIATION TECHNOLOGY,
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PARTICULARLY PELLETIZING, AND EQUIPMENT. WE UNDERSTAND THAT BETHLEHEM STEEL AND U.S. STEEL WILL BE AMONG THE FIRMS HOSTING THEM IN THE U.S., AND THAT ALLIS CHALMERS' CANADIAN SUBSIDIARY WILL BE A HOST IN CANADA.

3. THIS VISIT HIGHLIGHTS CHINA'S REAL INTEREST IN U.S. TECHNOLOGY IN THIS FIELD. IN THE LAST TWO MONTHS, AT LEAST FOUR

LARGE U.S. FIRMS -- ALLIS CHALMERS, BETHLEHEM STEEL, U.S. STEEL AND DRAVO -- HAVE BEEN INVITED BY TECHIMPORT TO OFFER SYMPOSIA ON ORE MINING AND PROCESSING. MOREOVER, THEY HAVE VISITED IRON ORE MINES, SOME OF WHICH HAD BEEN COMPLETELY OFF-LIMITS TO FOREIGNERS. THE MINES INCLUDE AN OPERATIONAL MINE NEAR CHIEN-AN AND AN UNDEVELOPED DEPOSIT NEAR CHIEN-HSI IN HOPEI PROVINCE, THE ANSHAN MINES AND THE PENHSI MINES IN LIAONING AND SOME MINES NEAR WUHAN.

4. IN AT LEAST THREE CASES THESE VISITS HAVE PROGRESSED BEYOND THE TALKING STATE. ALLIS CHALMERS SIGNED A TESTING CONTRACT UNDER WHICH THE CHINESE AGREE TO SHIP 400 TONS OF ORE TO THE U.S. AND TO PAY ALLIS TO TEST THE ORE AND TO DESIGN AN APPROPRIATE PELLETIZING PROCESS. ALLIS PLANS TO COMBINE THE DESIGN WITH A PROPOSAL TO TECHIMPORT TO FURNISH EQUIPMENT AND OTHER SERVICES TO MODERNIZE PROCESSING AT CHINA'S MINES. BETHLEHEM STEEL AND U.S. STEEL EACH WERE GIVEN ORE SAMPLES (U.S. STEEL WILL ALSO BE PAYING FOR AIR FREIGHTING OVER A TON OF ORE TO THE STATES) FOR TESTING, ALSO WITH THE PURPOSE OF DESIGNING A PROCESS TO SELL TO THE CHINESE.

5. COMMENT: PROBLEMS FACED BY CHINESE METALLURGISTS, NOTABLY LOW-GRADE ORE, HAVE BEEN FACED BY U.S. FIRMS IN THE PAST AND THE CHINESE SEEM TO APPRECIATE THIS. WE DOUBT THAT JAPAN, WHICH PROCURES HIGH-GRADE ORE FROM ABROAD, HAS FACED THE SAME PROBLEMS. HENCE, WE BELIEVE THAT THE U.S. IS IN AN EX-CONFIDENTIAL

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CELLENT POSITION TO SCORE CONTRACTS IN THIS AREA. THE COMPANIES INVOLVED SAY THAT COMPREHENSIVE PROJECTS, EVEN AT ONE MINE, COULD BE WORTH SEVERAL HUNDRED MILLION DOLLARS (FOR EQUIPMENT, DESIGN SERVICES, CONSTRUCTION ASSISTANCE, ETC.).

6. THIS MESSAGE CONTAINS COMMERCIALLY SENSITIVE INFORMATION WHICH SHOULD NOT BE DISCUSSED OUTSIDE THE USG. WOODCOCK

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